An Analysis and Prospect of Video Streaming Industry: Evidence from Netflix Inc

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ABSTRACT
The purpose of this paper is to explore the business model of the video and streaming industry and give practical suggestions combining the current situation and future forecast. This paper starts by reviewing the context of the industry as a whole. The author then demonstrates Netflix, a successful international streaming service business that offers various online products, that could be made to the conceptual frame of reference for the video and streaming industry. By utilizing Netflix as a case study objective in the context of its business performances from diverse divisions, the author examined factors that contributed to its success, product-line design, revenue and cost relationship, organizational pattern, possible risks, technical risks, financial risks, and customer risks. Based on these analyses, the author can thus able to summarize the Netflix model as a possible model for an Internet network in the video and streaming industry and the new picture for the developing video streaming ecosystem, and built up strategies along with recommendations on how to behave and develop under current market trend for start-ups and other companies looking for efficient business patterns.

Keywords: *Video and streaming industry, Business Analysis, International Business, Business Forecast, Netflix*

1. INTRODUCTION

1.1 Profile of the Video Streaming Industry

Online video content is film and television content that is streamed online using an Internet platform, and they have become a global business. Moving into the Internet era, the popularity of electronics in people's lives and the appearance of countless screens in many public places, and the growing global demand for online video streaming have provided the ground for the video and streaming industry to grow. For decades, the video streaming industry has received a great deal of attention academically and industrially, especially when established business structures with local content have earned a surprising amount of interest by attracting millions of viewers and audiences.

However, the global recession was followed by a rapid but highly disproportional rebound, driven by technological innovation and vigorous government policies [1]. The large entertainment and media (E&M) industry was severely impacted by the shutdown. Correspondingly, influenced by COVID-19, war, and complications, 2020 was a year of dramatic power shifts in the vastly interconnected E&M industry, which experienced challenges in an unstable economic environment and encountered disruptions in traditional distribution channels. As a result, the industry must adopt a new business model and look for more opportunities to adapt to current trends.

This paper takes a close look into the case study of Netflix, evaluating its business structure and utilizing it to build a worth learning business model with suggestions on future performances for the video streaming industry. The author aims to distill a model that makes Netflix so successful and analyze the reasons why this model works through various factors.

This paper will start with an introduction to the streaming market to give the reader an impression of the overall market analysis, and then begin to provide a business analysis of the different dimensions of Netflix, from historical business performance and Operation and Strategies, to provide a discussion and summary of the success tips that are generally applicable to streaming companies and suggestions for future potentials.

2. INTRODUCTION TO NETFLIX

Netflix Inc is a powerful company in the video production industry, which owns over 167 million paying subscribers around the world [2]. Netflix innovatively creates a transnational platform to redefine the pattern of video entertainment while maintaining a high level of subscription and views facing global and undifferentiated audiences [3]. Netflix is clearly a video streaming business trying to solve the traditional industry challenges and moving towards a new path in the video streaming industry.

Examination and evaluation of how companies such as Netflix perform their business strategies not only by advancing the field of video streaming development research but also by inspiring video streaming business managers who are starting or leading brands.

3. BUSINESS ANALYSIS OF NETFLIX

3.1 Overall Business Performance

3.1.1 1998-2007: Netflix's History and Early Years

Netflix was first born in August 1997 by two young entrepreneurs, Marc Randolph and Reed Hastings. There is an unofficial story about the origins of Netflix [5]. One day when Netflix co-founder Reed Hastings was on his way to return a long-overdue copy of Apollo 13, he was inspired to find a way around the high late fees and the accompanying nagging from his wife about them. So, in response to this inconvenience, he developed a model for video distribution that eliminates late fees.

When it first launched, Netflix purely focuses on movie rental services, where users order movies on the website and receive DVDs from posts, which, at the time, was a boon to people who did not have a video rental store nearby. Netflix surprisingly received and delivered over 20,000 DVDs to customers in its first year of operation with the corporation of US post office and an embryonic interface-the World Wide Web-which guarantees their delivery time and cost. At the same time, Netflix made itself exclusive among video streaming companies by providing original programs after a long time of experience mixing existing DVD film and TV content with the modern way of storytelling and advanced technologies. Armed with a keen identification of customer needs and current trends, Netflix grew large enough to support streaming Internet services [5].

However, after three years, Netflix began to lose money. Under that situation, Hastings flew to seek investment and funding from Blockbuster, which was one of the most successful companies among film and video renting businesses worldwide. Unfortunately, Blockbuster said no, four times. Why did Blockbuster decline to help? On the one hand, as Amy Lamare said, "the crash of the tech bubble hadn't quite begun to unravel at the time" [6]. In the 2000s, many Americans still preferred dial-up internet access at home and watched films on their large screens. On the other hand, the traditional video streaming business model still held a negative attitude towards the digital media industry, underestimating the future threat caused by the digital business.

Later on, Netflix continued to pay attention to fulfilling customers' personalized tastes by allowing skipping and choosing topics with over 1,000 cable channels [5]. The shift from generalization towards "personalization, individualization, and fragmentation" in video streaming content enlarged its potential customer basis and earned revenue. Indeed, at that time, Blockbuster had a chance to purchase Netflix for $50 million. Nowadays, Netflix has a Market Cap of $168.97 B (2022) and a share price of $528 in midyear, while Blockbuster is out of business and bankrupted in 2010 [7][8].

3.1.2 2007-2012 Expansion and Innovation of Netflix

In early 2007, Netflix broke more than 60 years of viewer habits around live television. In fact, Netflix found that there are genres, independent films, documentaries. Highly serialized TV shows that are consumed on an individual viewer's schedule can be more efficient. By delving into the definition of streaming, which is where people have control over their viewing experience, and the concept of media convergence, the flow of content across multiple media platforms, which became popular in the 2000s[9], Netflix has leveraged this trend to provide viewers with instant access to a vast library of content, all of which can be easily accessed through a simple easy to do on the site and for a low monthly or annual membership fee." Sarandos believes that "in our business model, it's more valuable to have a full season of a show than it is to have last night's show," he said. In our business model, it's more valuable to have a full season than to have last night's episode. It's about satisfying a need, not creating a need" [10]. Technology innovation also benefited Netflix of its ubiquity and convenience. Netflix's services were available on all set-top boxes, from Apple TV to all Blu-ray manufacturers to Google Chromecast [11]. Netflix is also user-friendly in the details of the device. For example, on the Roku remote, Netflix 'Netflix' can be accessed directly through a prominent button marked in red, so subscribers don't have to navigate through the lengthy menu page to search for Netflix shows.

3.1.3 2012-Present Netflix's Transitions to a Global Internet Platform

The year 2012 was a watershed year for Netflix in terms of commercial power and market position, as it not only further expanded its market but also completed its transformation from a video content distribution channel to an original content producer. With the release of Lilyhammer in January 2012 and House of Cards in 2013 [13], Netflix officially entered the ring alongside established content creators such as HBO, Showtime, FX, and AMC. In the same year, Netflix introduced a new feature, user profiles, and in August rolled out to users worldwide. The bold and innovative business decision brought Netflix positive market feedback in 2014: over 50 million subscriptions worldwide.

As Netflix stated in their long-term plan for 2013, they will continue to strive to compete for member time and spending against other commercials, DVD, Internet networks, and video game brands in the same category [14]. would only become more intense.

Importantly, Netflix has positioned itself as a unique and comprehensive entertainment platform, evolving from a cable business into a new form of Internet networking and a sought-after trend among the younger generation. This has allowed Netflix to stand out against the fierce competition and has laid the groundwork for him to be the number one in the US and even the top in the world. In 2021, Netflix officially hits 209 million global subscribers from 190 countries, with more than $25 billion in annual revenue.

3.2 Operation and Strategies

3.2.1 Business Model

3.2.1.1 Content Analysis

As a video streaming platform, Netflix faces an important strategic choice on its content-to has a wide range of movies, including most classic and popular films and TV shows, by exposing to the risk of spending too much on copyright and broadcast rights, or digging deeper to develop more unique exclusive contents. Netflix chooses the latter path and is fully investing in developing exclusive content in-house, offering only a small portion of classic movies on its streaming service. Only 13 of the top 100 highest-rated movies of all time in the IMDb movie rankings are on Netflix [15].

Netflix is not just a passive observer of user preferences, it reshapes and leads consumer preferences through the content it pushes. Netflix has also designed alternatives for missing content - making the absence of content less noticeable. If a Netflix subscriber searches for a missing movie, Netflix's algorithm automatically provides multiple replacements, while displaying the movie you searched for in small font at the top of the page to reduce users' sense of dissatisfaction.

To keep relevance and attract an influx of new customers, Netflix strives to win over subscribers from different regions with original content that is closer to their lives, like something that reflects their culture and life experiences, and can be viewed in their native language. A prime example of this is their original competition reality show, The Ultimate Beast [16]. This classic show was launched in six different language localizations: Brazil, Germany, Japan, Mexico, Korea, and the United States. In addition to this, Netflix has also embarked on partnerships with international broadcasters to co-produce streaming products in the native languages of their regions. For example, they recently signed a partnership agreement with Studio Dragon of the Korean media group CJ ENM [17].

Localized content strategies have been successful in regional markets. The 2019 Netflix annual report states that the most popular films in India, South Korea, Japan, Turkey, Thailand, Sweden, and the UK are localized originals.

Netflix's localization efforts are not limited to its content database - they are also present in the marketing campaigns for its streaming service [16]. Take, for example, Netflix's "One Story Away" branding campaign, which was launched in 27 countries simultaneously. Ava DuVernay voiced the U.S. commercial, Maja Schöne voiced the German concert and Roman star Yalitza Aparicio voiced the Latin American video. This careful and thoughtful design has greatly increased Netflix's subscriber loyalty and user stickiness.

3.3 Revenue and Cost

3.3.1 Revenue Analysis

3.3.2.1 Regional Revenue

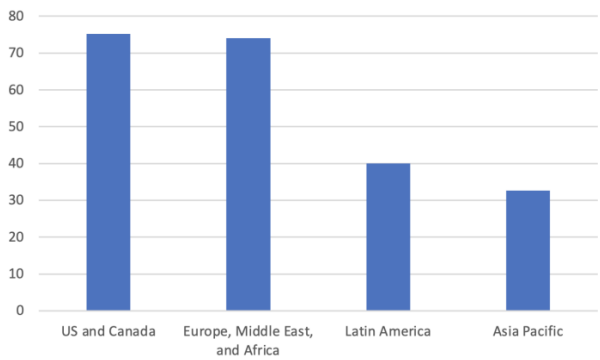

Figure 1 Worldwide Netflix paid streaming subscribers as of Q4 2021

Revenues in the U.S. and Canada(UCAN) increased 11.0% year-over-year to $3.3 billion in the fourth quarter of fiscal 2021. This was Netflix's slowest growing region

in the fourth quarter. However, it accounted for 43% of company-wide revenue and the largest share of total company revenue of any geographic region.

Netflix's revenue collected from Europe, the Middle East, and Africa (EMEA) grew 18.1% year-over-year to $2.5 billion in the fourth quarter of fiscal 2021. The region accounted for approximately 33% of the company's total revenue.

Revenue in Latin America grew 22.2 percent year-over-year to $964 million in the fourth quarter of fiscal 2021. It was the second-fastest-growing region in the quarter. Latin America accounted for approximately 13 percent of Netflix's total revenue.

Revenue in the Asia Pacific(APAC) grew 27.2% to $871 million in the fourth quarter of fiscal 2021. It was the fastest-growing region for Netflix in the fourth quarter. However, it had the smallest share of total streaming revenue at just over 11%.

3.3.2.2 Annual Revenue

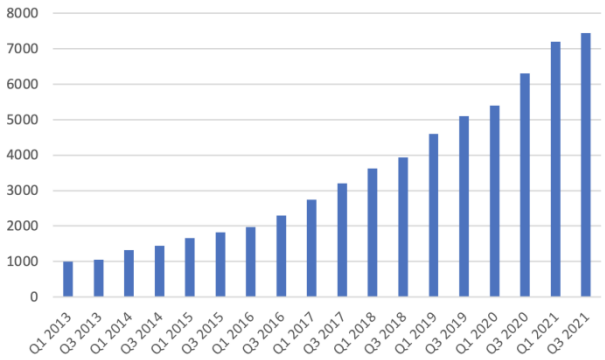

Figure 2 Netflix's Revenue earned from Q1 2013 to Q4 2021

The changes in Netflix's revenue can be extracted from their annual reports for all years. It can be seen that its revenue has been growing steadily in recent years. It is worth noting that when comparing the annual revenues from 2019 to 2021, Netflix's revenue rate shows a dangerously slowing trend: $29.698B in 2021, up 18.81% from 2020; $24.996B in 2020, up 24.01% from 2019; and $ 20.156B, an increase of 27.62% over 2018. This trend is both brought about by COVID and as a result of more intense market competition.

3.4 Governmental Regulation and Policy

Political risk, which independently occurs when a government changes its policies due to the market and national economy, can negatively impact a multinational company like Netflix in terms of localized operations. For example, changes in requirements from government film and television agencies and censors could result in Netflix removing or modifying popular video streaming content and localized site models, resulting in consumer disappointment, brand damage or dissatisfaction with Netflix's service by not enjoying the same products.

In the last two decades, streaming has shaken the television industry to its core at a breathtaking pace, ruined the windows of the film industry, blurred the lines between film and television, and rewritten the traditional business relationship between consumers and operators. Governments are gradually deciding and generating regulatory regimes to address the changes as streaming companies are now behemoths, as well as producers, distributors, exporters, and e-commerce store windows.

In Australia, there has been a recent backlash against the global streaming giants who have been told they need to respect local input, in other words at least pay for various types of leases and usage fees [18]. In Europe, the old "TV without borders" regime - the former cornerstone of audiovisual sector regulation - is being replaced by an improved directive on audiovisual media services. It contains familiar provisions that satisfy the sense of "cultural exception" in some countries. And the French government, which has been a stubborn defender of its culture and industry, has issued a decree imposing an investment obligation that fluctuates between 20-25 percent of streaming companies' French business revenues, which will undoubtedly reduce a considerable portion of revenues for streaming companies, including Netflix. And the absence of Netflix at Cannes - due to the festival's requirement that all films in competition must be screened in France - is also a clear reflection of France's strict windowing policy, which is linked to the country's overall regulatory efforts.

4. DISCUSSION

As the leading giant in the US streaming market, every decision Netflix makes has a huge impact on its own company's operations and its position in the overall market. Notably, its share has declined from 29% to 20% in the last year [19]. Below, I highlight key strategic risks Netflix is facing from four aspe and why they are important to its future operations.

4.1 Technical Risks

Netflix, as a new Internet platform, relies entirely on computer science technology infrastructure and the Internet to deliver online products to consumers around the world. Therefore, any power failure, network error, and computer virus can cause Netflix to be completely unavailable, which is an unavoidable potential risk in all markets in which it operates, especially in areas where its main servers are located.

4.2 Supplier Risk

Despite being a semi-original production output platform, Netflix still relies on third-party studios to

deliver authorized shows and movies, and on many other partners to serve consumers [20]. As stated in its 2020 annual report, Netflix's agreements with these partners typically last one to two years. This also means that if Netflix is not successful in maintaining its current level of commerce and convincing these partners to enter into new relationships before their agreements expire, it could result in products and services not being available promptly, which could dissatisfy consumers and thus negatively impact the company's profits and value.

4.3 Financial Risks

International operations are susceptible to foreign exchange risk, which is a financial risk. As a U.S. company that reports its earnings in the dollar, a stronger dollar relative to foreign currencies will harm the company's sales and operating income which could hurt the global portion of business income as a whole.

Netflix spends a large portion of its content spending on original content production-more than 80% of the $15.3 billion spent on video content in 2019- and this spending is increasing every year [21]. The 5-year compound annual growth rate (CAGR) for video content spending is about 20.25%, while the 5-year CAGR for paying subscribers is only 17.98% [20]. This disparity is partly a testament to Netflix's financial struggles. Despite the high level of expenditure on originating content, Netflix still relies heavily on licensed shows and movies from third-party studios, which account for the majority of Netflix's viewership (63%). The termination or change in terms of relationships or agreements with these third parties could have a highly negative impact on Netflix's operations.

4.4 Customer Risks

With new and existing competitors, consumers have more options to access video streaming content and entertainment offerings. These competitors may offer more attractive content and cheaper pricing to quickly capture video streaming market share and customer base. Its main competitors are HBO Max, Disney+, Amazon Prime Video, and Apple TV+ [21]. Therefore, if Netflix does not continue to develop innovative products and try to remain competitive in the market, it risks losing its existing customer base. This is because under the current Netflix subscription model, consumers do not have the cost and opportunity cost of switching to a new product when the existing subscription cycle ends.

5. CONCLUSION

NFLX currently keeps growing in two ways, by tapping into new potential subscribers, or by making more money from each subscriber. So far, NFLX has been focused on adding as many users as they can. And they've done a great job of it. Of course, the cost of acquiring these customers, the cost of providing the service, and the cost of the content must all be taken into account. But so far, NFLX has kept the cost to the consumer extremely low. They've been able to do this because their margins are so good. The current profit margin for streaming services in the U.S. is 33%, compared to 53% for DVD services; however, DVD subscriptions are shrinking rapidly as the Internet becomes more developed, so companies with a long-term vision cannot really rely on this as a future line of business. In such a moment where opportunities and challenges coexist, the right decisions Netflix has made and the setbacks it has encountered are classic examples for other companies and entrepreneurs to learn from.

5.1 Key Lessons from Netflix and Connections to Streaming Market

Netflix's international business is rapidly expanding and is rapidly penetrating local markets through localization to achieve effective market expansion and market share capture. A broad market is a key indicator of a streaming company's success, so the practice of partnering with local companies and tailoring its product content to each market is a worthwhile one and can provide the company with a competitive advantage. In addition to this, it is important to continue to strengthen existing partnerships and consider new ones with global and local companies in the context of globalized trade, which will help the company mitigate and avoid the risks it faces in international markets and allow it to remain competitive. Netflix is well established in terms of market exploration, but there are some gap areas, such as China. While Netflix has experienced exponential growth in its internationalization strategy over the years, it may begin to experience a flatter curve in the future as more competitors flood into relevant markets. Therefore, to grow continuously, the company should continually conduct business analysis and strategic assessments and seek to expand into new gap markets in the future, especially those that offer significant financial rewards.

Delivering original content output tightly correlates with Netflix’s success. For unique streaming companies that want to become giants and stand out from the market, independent production of content is inevitably the most dangerous, albeit the most exciting direction to go. At the same time, after observing Netflix's transformation up close, we can learn from its strategy of moving from a fully functional video platform, to a semi-original, and now to an 80% original video streaming company, to maximize the company's steady growth while carrying out market domination and style formation.

The problems that Netflix faced -technical, supplier, financial, and customer risks- are also worth learning from, allowing us to design improved solutions based on them and better predict the future. Technical problems such as power failures, network errors, and computer

viruses can be fatal for any streaming company, yet there is no perfect solution. The financial risks faced by Netflix do not seem to be as universal as it is for the original products. For small start-ups and entrepreneurs, it is a better strategy to invest carefully in original products while running the licensed products on the platform to avoid as much as possible the impact of the financial crisis and market turmoil.

Netflix's typical pricing and subscription model can serve as a model for other companies to follow for a while, but it is even more important to distill the logic to generate a unique new model. stable revenue approach seems dangerous. A better approach might be to offer monthly and annual subscriptions along with separate fees for new acquisitions of popular products and selected classics to ensure a balanced budget.

To sum up everything that has been stated so far, as a top international streaming company, Netflix needs to analyze and learn from all aspects of its business operations. The video streaming industry, including movies, TV shows, videos, and live-streamed content, as a whole needs to extract the rules that apply to different companies, which can drive the development of the streaming industry to a certain extent. Future research on the market competition and the comparison with other streaming businesses might extend the explanations of what are the strategies Netflix uses facing an increased risk level due to the influece of COVID-19, fiercer competition, and impacts from other industries.

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